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**ACHIEVING SUSTAINABLE LOAN GROWTH IN BANKING INDUSTRY
A CASE STUDY IN PT BANK RAKYAT INDONESIA (Persero) Tbk**

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Abstract—PT. Bank Rakyat Indonesia (Persero) Tbk, or commonly called BRI is the oldest and widest bank in Indonesia. Founded in 1895, BRI currently has more than 8,600 working units spread across Indonesia and has been connected in real-time online. Since the beginning, BRI has focused and committed on Micro, Small and Medium Enterprises (MSMEs) segment as the core of BRI's business. However, currently BRI suffered a setback in SMSEs segment as its major business, especially since the last three years. In fact BRI's loan growth in the third quarter of 2012 only amounted to 15.08% which is far below the average growth of the national commercial bank which reached 23.6%. This condition is very contradict with the conditions in several years ago in which the BRI's loan growth is always above the average loan growth of the national banks. Currently BRI is designing a business strategy to improve coordination between business units and also to accelerate the growth of its business. This Final project is composed to examine and explore the business strategy taken by BRI as the oldest and widest bank in Indonesia in order to maintain and accelerate the business growth. Hopefully with this strategy, BRI can maintain a sustainable and healthy business growth in the middle of tight conditions of business competition.

Keywords: SMSE, Sustainable Growth, Business Strategy

1. Introduction

In emerging country like Indonesia, banking sector still acts as the backbone of the nation' economic. Nowadays, banking industry especially in Indonesia is facing a direct challenge. Apart from the emergence of new competitor such as the capital markets, money markets, and non-banking financial institutions, the competition in Indonesian banking industry itself shows a significant escalation. This paper is composed to examine and explore the business level strategy taken by PT Bank Rakyat Indonesia (Persero) Tbk (BRI) as the oldest and widest operation bank in Indonesia in order to maintain and accelerate its business growth.

PT Bank Rakyat Indonesia (Persero) Tbk. or used to called BRI is the oldest and widest bank in Indonesia. Its history was started back on 16 December 1895, when Raden Bei Aria Wiraatmaja founded a small financial institution with the name of De Poerwokertosche Hulp en Spaarbank der Inlandsche Hoofden. The institution was a mosque-based association, which function was to manage and disburse trusted fund to community in a very simple scheme. Currently, BRI employed more than 85.000 employees that are placed at 30 Divisions in the head office, 18 inspectorate office, and 8.613 conventional channels.

BRI is a bank that focuses on micro, small and medium business segments. These segments represent the backbone of Indonesian economy with a potential market more than 55 million MSME businesses. To conduct the intermediary function, so it can maintain and accelerate a healthy business growth, BRI is focusing its business into five major categories:

- a. Micro, Small, and Medium sized Business
- b. Consumer Business
- c. Commercial Business

- d. Institutional and State-Owned Enterprise Business
- e. International and Treasury Business

2. Business Issue Exploration

BRI is one of the healthiest and the most profitable bank in Indonesia. In fact BRI's profitability is higher than banking industry not only in Indonesia but also in other regions as reflected from the figure 2.1 below :

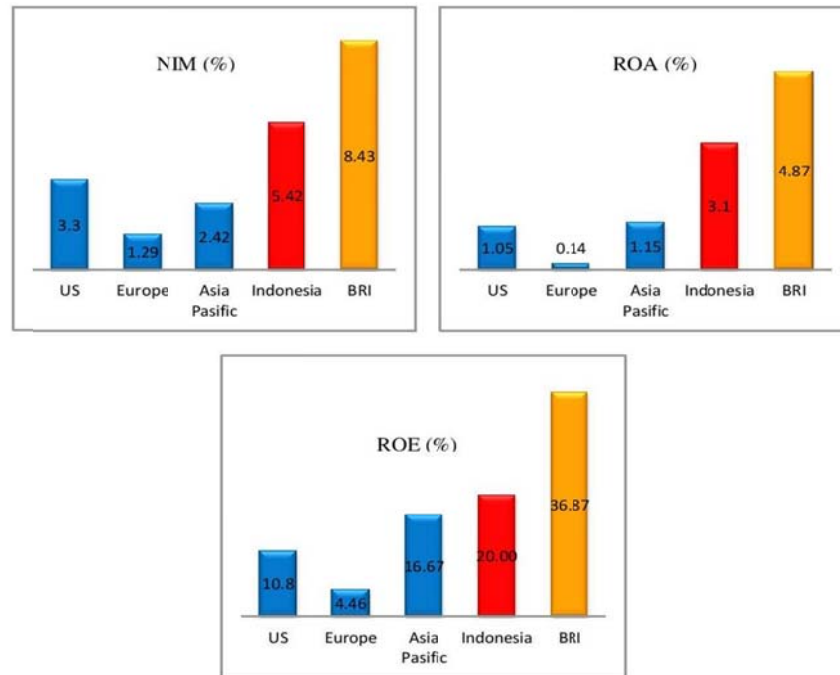


Figure 2.1 Q-3 2012 Banking Industry in Comparison
(Source : Bloomberg, Bank of Indonesia, and Company Data)

This high profit comes from BRI's expertise in providing banking services for the Micro, Small, and Medium-sized enterprises. In Indonesia, the MSME segment is still become the backbone of the nation's economy with a potential market more than 55 million businesses. With this strategy, BRI succeeded in becoming the most profitable bank in Indonesia for 5 consecutive years.

However, currently BRI suffered a setback in its major business, especially since the last three years. By the end of third quarter of 2012, compared with other competitor at the same industry, BRI's loan growth is not showing an encouraging figure. At that time, BRI loan growth is only reached 15,08%. This number is far below the nearest competitor achievement which are Mandiri Bank that touched the level of 23,21% and BCA with the number of growth at the level of 34,79%. Even if we compared it with the average loan growth of national commercial bank which is touch the level of 23,6%, BRI's loan growth is still far left behind. This condition is very contradictory with the conditions in several previous years when BRI's loan growth is always above the average loan growth of the national banks

This setback was also followed by the decreasing of BRI's market shares in the national loan disbursement as illustrated in the figure 2.2 below

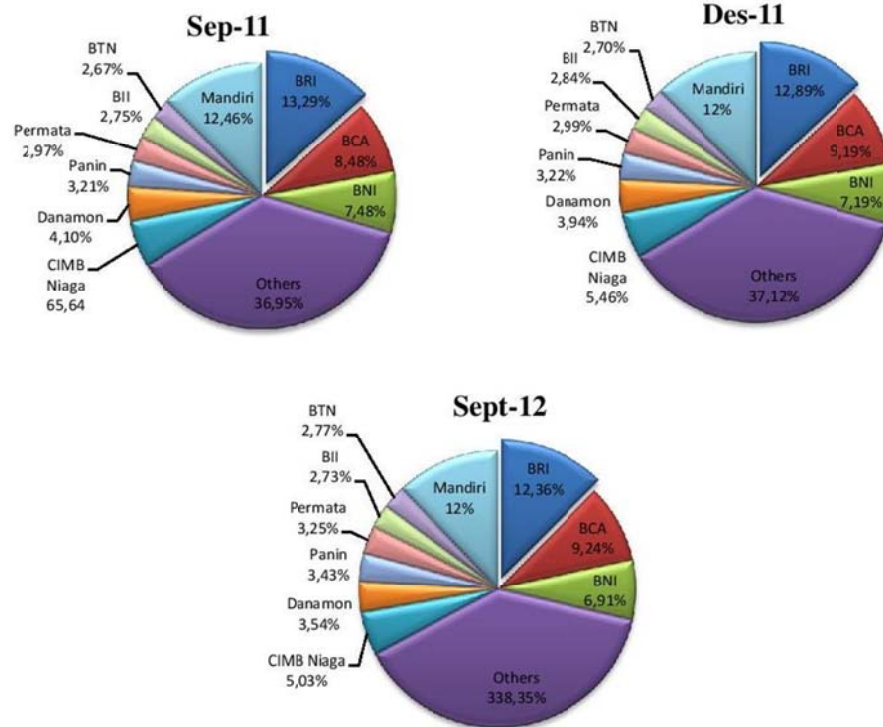


Figure 2.2 Market Share of Loan disbursement Y-o-Y
(Sept'11 – Sept'12)

Basically, the largest contributor for BRI total incomes is the interest income that comes from loans disbursement. In the third quarter of 2012, the interest income reached a portion of 85,5% from total income which amount of 41,1 trillion IDR. This condition is described by the high Value of BRI's Net Interest Margin (figure 2.1). With this kind of condition, it is obvious that BRI have to maintain a sustainable loans growth in order to create optimal values and benefits for its stakeholders.

The research question of this thesis is "how to create an effective business strategy using BRI's comparative advantage in order to achieve sustainable loan growth in the MSME segment?"

The research objectives of the thesis are as follows:

- Creating a sustainable loan growth especially for the MSME segment
- To maintain and increase BRI's market shares especially in the MSME segment.
- Creating an entry barrier for other competitors with closed financial system especially for the corporate customer who can create trickle down business for the MSME segment.

A. Conceptual Framework

Basically there are many factors which influence customer behavior when selecting banking product such as loan. Many studies have been conducted in order to identify these customer behaviors. According to Frangos et al in the marketing journal titled "Factor Affecting Customer's Decision for Taking Out Bank Loan" mentioned that "the main factor that determine the demand for bank loans are : a) lending interest rates, b) service quality, and c) social factors, such as marital status" (2012 :13). Another research conducted in the United State about criteria that are considered important for customer to choose financial services from a bank shows that such factors as : a) staff quality, b) being trustworthy, c) fees, and d) locational convenience are the most important factors (Yavas et al, 2002 : 222). Additionally, Frangos quoted other potential factors that effected customer's selection choice of a bank which are : "services efficiency, bank reputation, bank fees, convenient location, and interest rates on saving account and loan (Yue and Tom, 1995)" (2012 : 4).

But understanding these basic needs and trying to fulfill it does not make any bank can survive and win in this highly competitive industry. The basic strategy by filling up those customer basic needs is very easy to imitate so it does not give any sustainable advantage. In order to meet consumer's needs better than its rivals, BRI have to achieve competitive advantage by pursuing a particular set of actions in growing its business. This strategy will reflected from its actions in the marketplace and from the statement of senior managers about the company's current business approaches, future plans, and effort to strengthen its competitiveness and performance (Arthur A. Thompson et al, 2005 : 4).

In the beginning, several possibilities have been identified as potential problems that need to be explored further more. These factors are come from internal environment as well as external, namely:

- a. Loan procedure which is not flexible enough.
- b. Loan product which doesn't catch up with the current condition.
- c. Scarcity of qualified and experienced human resource.
- d. Tight competition within the national banking industry.
- e. The entrance of foreign bank in the form of local bank acquisition and directly open operational branches.
- f. Lack of coordination between its business units.
- g. Low loan product awareness.

B. Method of Data Collection and Analysis

Quantitative and qualitative research methodologies are taking the role play in this final project. Data gathering based on interviews, discussion, company's current historical data and other related sources. General steps in this final project will be as follow:

1. Researching, observing, and collecting current data about BRIs performance and other related business process.
2. Conducting Data Analysis
3. Identification of potential problems based on data collection.
4. Design new concept of business strategy as business solutions for existing problems.

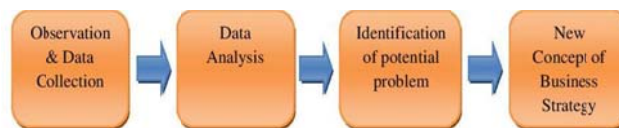


Figure 3.1 Research Methodology Analysis of Business Situation

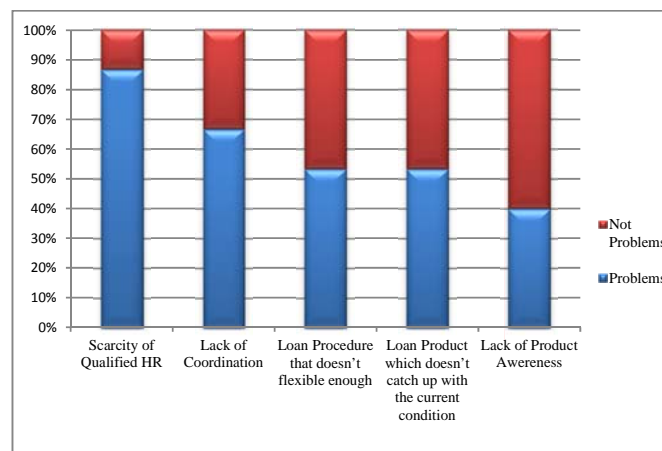
The data collection for the research was done in two general mechanisms:

1. Data and information from BRI internal database such as annual reports, loan growth report, Standard Operating Procedure, and verbal discussion through group or personal meeting with different level of management.
2. Internal discussion and interview with different level of management from middle management such as sub-branch manager, branch manager to the higher level of management like Senior Vice President and Executive Vice President. The purpose of those interviews is to find the correlation between the potential problems with the actual condition. The number of respondents who were interviewed for this final project are 15 people with the following details:

Table 3.1 List of Respondents

N o	Position	Quant	Business Unit	Work Experience
1	Executive Vice President	1 person	Micro Business Division	26 years
2	Senior Vice President	2 persons	<ul style="list-style-type: none"> •Retail & Medium Business Division •Micro Business Division 	24 – 26 years
3	Branch Manager or Group Head	5 persons	<ul style="list-style-type: none"> •Keb. Baru Branch, Jakarta •Tembilahan Branch, Riau Mainland •Tanjung Tabalong Branch, East Kalimantan •Banjarmasin Branch, Kalimantan •Medan Regional Office 	9 – 24 years
4	Sub Branch Manager	7 persons	<ul style="list-style-type: none"> •Pos Pengumben Sub Branch, Jakarta •Tanah Abang Sub Branch, Jakarta •Permata Hijau Sub Branch, Jakarta •Cempaka Putih Sub Branch, Jakarta •Cinere Sub Branch, Jakarta •Blora Sudirman Sub Branch, Jakarta •Sabang Sub Branch, Aceh 	9 – 10 years

From the interview, several issues have been identified that seems to be the problems in achieving sustainable loan growth. The following figure is representing the weaknesses faced by BRI in term of achieving sustainable loan growth that must be overcome.

**Figure 3.2 the Result of Interviews**

To give an illustration in a graphical way about the problems in term of achieving sustainable loan growth, a fishbone diagram was used. This diagram or sometimes called Ishikawa diagrams is a cause-and-effect diagram that helps identify, sort, and display possible causes of a specific problem or quality characteristic. It illustrates the relationship between a given outcome and all the factors that influence the outcome

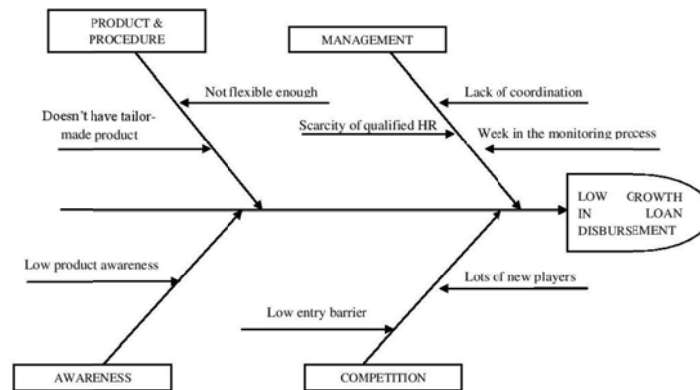


Figure 3.2 Fishbone Diagram

3. Business Solution

One of BRI's competitive advantage which is not owned and also not easily imitated by other competitors is the very vast operational network both conventional and electronic channels that covered all over Indonesia and already connected in real-time online network. By the end of the third quarter 2012, BRI already have 8.613 conventional channels and 49.322 electronic channels (Table 1.1 and Table 1.2). This extensive networking is supported with advanced technology and run by more than 90.000 employees that already have the experiences in banking industry for many years.

Another BRI's competitive advantage that should be recognized is the commitment to make Micro, Small, and Medium-sized enterprises (MSME) as the main focus of BRI's banking business. This segment represents the backbone of Indonesian economy with a potential market size more than 55 million MSME businesses. From that amount, roughly two-third has not been reached by banking services. Because of this commitment, BRI has developed know-how and specialized competitive capabilities in this segments over a long period of time. This advantage is difficult to imitate by other competitors who wish to enter the business segment.

After mapping all of the weakness and potential threat faced by BRI in term of achieving sustainable growth and also identifying the strength and opportunities, several recommended solution that need to be implemented are as follows:

- Establish a task force to develop and implement a strategic plan for empowering coordination among business units to accelerate loan growth. This task force also has to create an effective communication with all of the stakeholders in order to receive a feedback and valuable information and delivered a solution if there is any problems occur.
- Create a partnership with corporate customers which have the potential to create a trickle down business. As the entry point for this partnership is the loan disbursement that added with special privileges if these corporate customers can generate trickle down business. These special privileges can be in the form of lower rate, more flexible loan procedure, providing cash management system and host-to-host system with free of charge.
- Create a more flexible loan product and procedure with a measurable level of risk and provide it with effective risk mitigation. To mitigate the risk and give a comparative advantage, this loan product and procedure must be designed for specific industries that differ from one with another.

- d. Related with the scarcity of qualified human resources, several actions also need to be done, which are :
- For certain areas, a minimum requirement for recruiting account officers, especially in term of educational background should be adapted with the demographic conditions in those areas. For example in some part of eastern Indonesian, it is difficult to recruit a fresh graduated from reputable university, so the minimum requirement of educational background for hiring a new account officer can be changed into lower standard with additional expertise like know how to operate computer program, has the experience in the related fields, etc.
 - Create an effective delegation of duty in term of recruiting workforces. The idea is certain business units especially in the remote area are given the authority to conduct recruitment process which tailored with the labor market condition in that area.
 - To fill the gap between junior and senior, the new generation of the employee will be working alongside with an older generation as a team. With this kind of work, the transfer of knowledge and expertise will become easier and more efficient.
 - Enhance more proper performance management system. To differentiate the employee that has a good performance and poor performance so the management can give a fair treatment to them in term of promotion, compensation, reward and punishment.
 - Creating more proper reward and incentive mechanism that linked with the performance management system.
- e. Accelerate the implementation of the “Trickle-down Business Strategy”. This specific strategy has been conceptualized by BRI, but it has not been implemented as yet. It is relevant and useful concept and it must, in my opinion, be executed immediately. However in the execution of this strategy, BRI must ensure that it has a team of competent staff in charge. Also sequent evaluation of this execution should be done by the top management, to ensure its success. A detailed explanation of the “BRI’s Trickle-down Business” is described in the following section.

BRI’s Trickle-down Business Strategy

At this moment, there is a specific business strategy that still in the form of concept. A task force is already created to develop and implement this strategic plan. The business strategy itself called “BRI’s Trickle-down Business”. The basic definition of this business strategy is a series of actions performed by all of related business units to empowering coordination in order to accelerate business growth especially in the SMSE segments.

The idea comes from the high momentum of BRI loan disbursement in the corporate sector and the awareness that this segment can bring a trickle down business for the SMSE segments and at the same time can create a closed financial system which can be function as an entry barrier for other competitors. In order to work effectively and give maximum results, this strategy must emphasizing in the coordination among its business units and executing close monitoring of the implementation process.

The first step of this strategy is creating partnership with corporate customers which have the potential to create a trickle down business. As the entry point for this partnership is the loan disbursement that added with special privileges if these corporate customers can generate trickle down business. Usually these special privileges is in the form of lower rate, more flexible loan procedure, providing cash management system and host-to-host system with free of charge.

After the partnership has been established, the next step is the gathering information that related with the trickle down business that wants to be created. The information is in the form of the number of subsidiary companies, potential customers and vendors, type of business, and other related information. This information act as an input for the product owner division in the Head Office to create a tailor-made loan product that suited with the trickle down business and also added with special privilege like more flexible loan procedure and competitive price. Once the loan products

has been made, then the head office has the obligation to disseminate the information about this partnership to all of the regional offices and branch offices across Indonesia and make sure that all business units are well informed.

The next action is for the regional offices and branch offices to follow up the trickle down business that has been made previously. Several actions are needed in term of approaching the trickle down customers such as conducting business gathering and making serial promotion campaign. This action can also effectively increase the product awareness among the potential customers that essential for the communications process to occur.

For the continuous improvement, each business unit must provide feedback about the problems that occur in the implementation of this strategy and it is the obligation of the business units above it to provide an effective solution for those problems. To give a better view about how this strategy works, below is the figure of the work flow of BRI's Trickle-down Business Strategy.

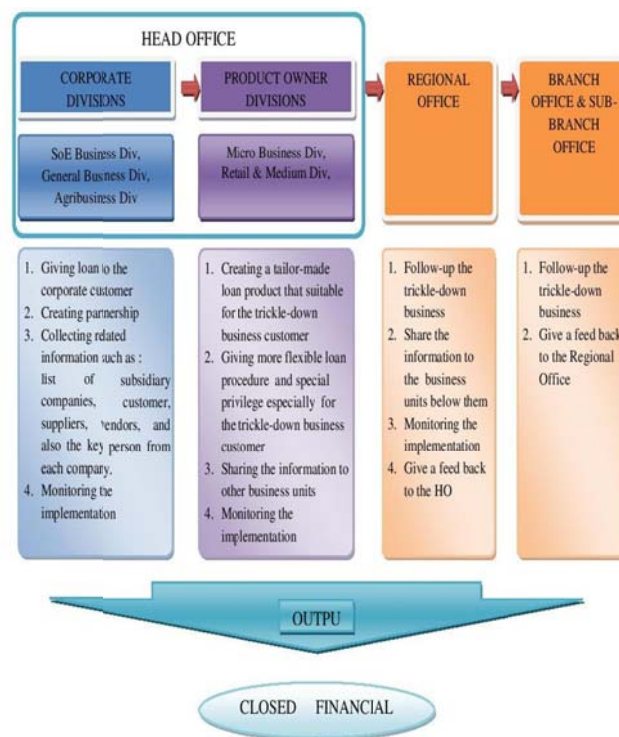
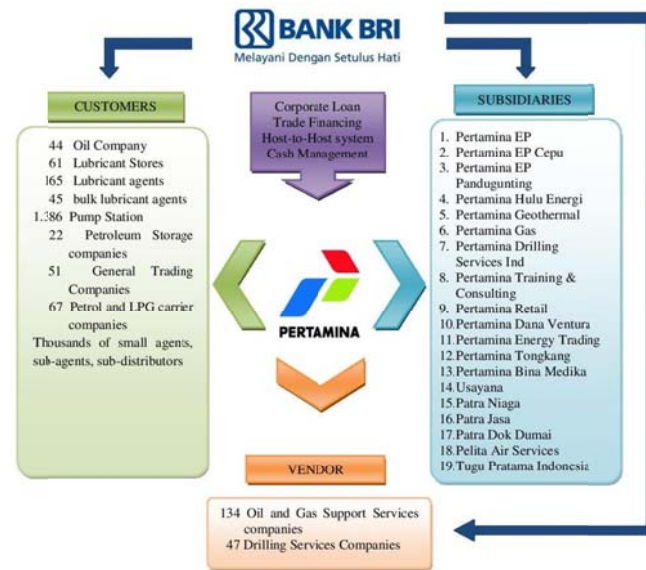


Figure 3.3 Workflow of BRI Trickle down Business

As an illustration of this strategy, below is the example of how BRI can generate a sustainable loan growth from the partnership with PERTAMINA and all of the components in its business tree.



➡ Figure 3.5 BRI's trickle-down Business Illustration

4. Conclusion and Implementation Plan

Based on the data analysis which gathered from internal discussion and interview with different level of BRI's management and also from other related sources, several issues have been identified that seems to be the problems in achieving sustainable loan growth which are:

- Lack of coordination among business unit to accelerate business growth
- Scarcity of qualified Human resources
- The loan procedure that doesn't flexible enough
- The loan product that doesn't catch up with the current condition.
- Lack of product awareness.

To overcome all of the problems mentioned before, several recommended solution that need to be implemented are as follows:

- Establish a task force to develop and implement a strategic plan for empowering coordination among business units to accelerate loan growth. This task force also has to create an effective communication with all of the stakeholders in order to receive a feedback and valuable information and delivered a solution if there is any problems occur.
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- Related with the scarcity of qualified human resources, several actions also need to be done, which are :
 - For certain areas, a minimum requirement for recruiting account officers, especially in term of educational background should be adapted with the demographic conditions in those areas. For example in some part of eastern Indonesian, it is difficult to recruit a fresh graduated from reputable university, so the minimum requirement of educational background for hiring a new

account officer can be changed into lower standard with additional expertise like know how to operate computer program, has the experience in the related fields, etc.

- Create an effective delegation of duty in term of recruiting workforces. The idea is certain business units especially in the remote area are given the authority to conduct recruitment process which tailored with the labor market condition in that area.
- To fill the gap between junior and senior, the new generation of the employee will be working alongside with an older generation as a team. With this kind of work, the transfer of knowledge and expertise will become easier and more efficient.
- Enhance more proper performance management system. To differentiate the employee that has a good performance and poor performance so the management can give a fair treatment to them in term of promotion, compensation, reward and punishment.
- Creating more proper reward and incentive mechanism that linked with the performance management system.

The Trickle-down Business Strategy is a Business Strategy that matched with BRI's opportunities, strength, core competencies, competitive condition, and other aspects of the company's environment. It has a function to empowering all of BRI's competitive advantage to create sustainable loan growth especially in the SMSE segments. In order to work effectively and give maximum results, this strategy must emphasizing in the coordination among its business units and executing close monitoring of the implementation process

Implementation Plan

The implementation plan provides a framework of action that need to be done in order to execute the business strategy. It based on the organization goals and objective and also identifies the action required to implement the business strategy in an effective way.

Following are the serial of actions to implement the business strategy in order to achieve sustainable loan growth:

Table 4.1 Business Strategy Implementation

No.	Action	Q 2 '1 3	Q 3 '1 3	Q 4 '1 3	Q 1 '1 4	Q 2 '1 4	Q 3 '1 4	Q 4 '1 4
1.	Determining the business strategy carried out by the board of director and communicates it to all of stakeholders							
	Creating a task force to develop and implement the business strategy							
2.	Instituting policies and procedures to be used as legal basis to execute the business							

	strategy						
3	Staffing the organization especially in sub urban and rural area and retaining the existing capable human resources by conducting effective recruitment process and enhancing more proper performance management system						
4	Implementing more proper rewards and incentives mechanism that linked with the performance management system						
5	Installing the information and operating systems that enable all of business unit managers to carry out the business strategy proficiently						
6	Monitoring the execution process and conducting continuous improvement						

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